

# Lone Star Real Estate Fund IV

Presentation for the State of Rhode Island  
*March 25, 2015*

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The “**Prior Funds**” are Lone Star Residential Mortgage Fund I (U.S.), L.P., Lone Star Residential Mortgage Fund I Holdings (Bermuda), L.P., Lone Star Fund IX (U.S.), L.P., Lone Star Fund IX (Bermuda), L.P., Lone Star Fund IX Parallel (Bermuda), L.P., Lone Star Real Estate Fund III (U.S.), L.P., Lone Star Real Estate Fund III (Bermuda), L.P., Lone Star Fund VIII (U.S.), L.P., Lone Star Fund VIII (Bermuda), L.P., Lone Star Real Estate Fund II (U.S.), L.P., Lone Star Real Estate Fund II (Bermuda), L.P., Lone Star Fund VII (U.S.), L.P., Lone Star Fund VII (Bermuda), L.P., Lone Star Real Estate Fund (U.S.), L.P., Lone Star Real Estate Fund (Bermuda), L.P., Lone Star Fund VI (U.S.), L.P., Lone Star Fund VI (Bermuda), L.P., Lone Star Fund V (U.S.), L.P., Lone Star Fund V (Bermuda), L.P., Lone Star Fund IV (U.S.), L.P., Lone Star Fund IV (Bermuda), L.P., Lone Star Fund III (U.S.), L.P., Lone Star Fund III (Bermuda), L.P., Lone Star Fund II (U.S.), L.P., Lone Star Fund II (Bermuda), L.P., Lone Star Opportunity Fund, L.P. and Brazos Fund, L.P.

**Past performance is not a guarantee of future results and no representation or warranty is made as to the returns that may be experienced by investors in the Funds. An investment in the Funds is speculative and involves a substantial risk of loss including loss of principal. Projected performance of uninvested capital and projected future, unrealized cash flows of existing investments do not represent a guarantee of future results with respect to uninvested capital and existing investments. The information set forth herein is intended for sophisticated investors only, and prospective investors should carefully review and analyze the information herein.**

All performance metrics described herein as “Gross” exclude the deduction of carried interest, the Adviser’s management fee, and all other fund-level expenses. An investor’s actual returns will be reduced by these fees and expenses, which are described in each Fund’s Confidential Private Placement Memorandum. Gross performance metrics include deduction of all investment-level expenses including, but not limited to, asset management fees.

# Introduction to Lone Star Funds

## About Lone Star Funds

Lone Star is a leading private equity firm that invests globally in real estate, equity, credit and other financial assets. Lone Star's funds are structured as closed-end, private-equity limited partnerships, the limited partners of which include corporate and public pension funds, sovereign wealth funds, university endowments, foundations, funds of funds and high net worth individuals. The funds are advised by Lone Star Global Acquisitions, Ltd. (the "**Adviser**"), an investment adviser registered with the U.S. Securities and Exchange Commission. Since the inception of Lone Star's first fund in 1995, Hudson Advisors LLC and its global subsidiaries (collectively, "**Hudson**") have been dedicated to the support of the funds' investment activities globally, providing due diligence and analysis, asset management and other support services.

- Lone Star has organized fourteen private equity funds with aggregate capital commitments since inception totaling over \$54 billion with an aggregate hypothetical projected gross IRR of 29.8% (net 19.5%) as of September 30, 2014. The aggregate hypothetical projected gross IRR across the Prior Funds for commercial real estate-related investments is 29.9% as of September 30, 2014<sup>(1)</sup>
- The Prior Funds have collectively closed more than 400 investments in approximately 1,200 transactions at an aggregate purchase price of over \$130 billion (including acquisition financing and co-investors)
- As of December 31, 2014, the Prior Funds have distributed a combined total of \$45.3 billion since inception (including \$10.0 billion during 2014) representing approximately 122% of capital called<sup>(1)</sup>

## Investment Strategies

Lone Star has historically invested in commercial real estate debt and equity, residential loans and securities, corporate and consumer debt products, as well as financially oriented and other operating companies.

- Prior to 2007, Lone Star made all of its investments in a single fund family
- In 2007, based on feedback from Lone Star's investor base and beginning with Lone Star Fund VI and Lone Star Real Estate Fund, Lone Star made the decision to utilize separate funds, separating commercial real estate-related investments ("**CRE**") from other investment classes, such as non-commercial real estate loans and securities (single-family residential, consumer, and corporate), and financial and other operating companies ("**Non-CRE**")
- With the introduction of Lone Star Residential Mortgage Fund I in December 2014, Lone Star added a new Non-CRE strategy focused on U.S. residential real estate debt with a different risk-weighted return profile from that pursued in other Prior Funds

<sup>(1)</sup> Past performance is not a guarantee of future results and no representation or warranty is made as to the returns that may be experienced by investors in the Funds. Please see slides 19-23 for important information regarding this performance presentation.

# Introduction to Lone Star Funds

## Prior Lone Star Funds

Lone Star has organized fourteen private equity funds with aggregate capital commitments since inception totaling over \$54 billion

Commercial Real Estate	Year of Formation	Capital Commitments
Lone Star Real Estate Fund	2007	\$2.4 billion
Lone Star Real Estate Fund II	2009	\$5.5 billion
Lone Star Real Estate Fund III	2013	\$7.0 billion

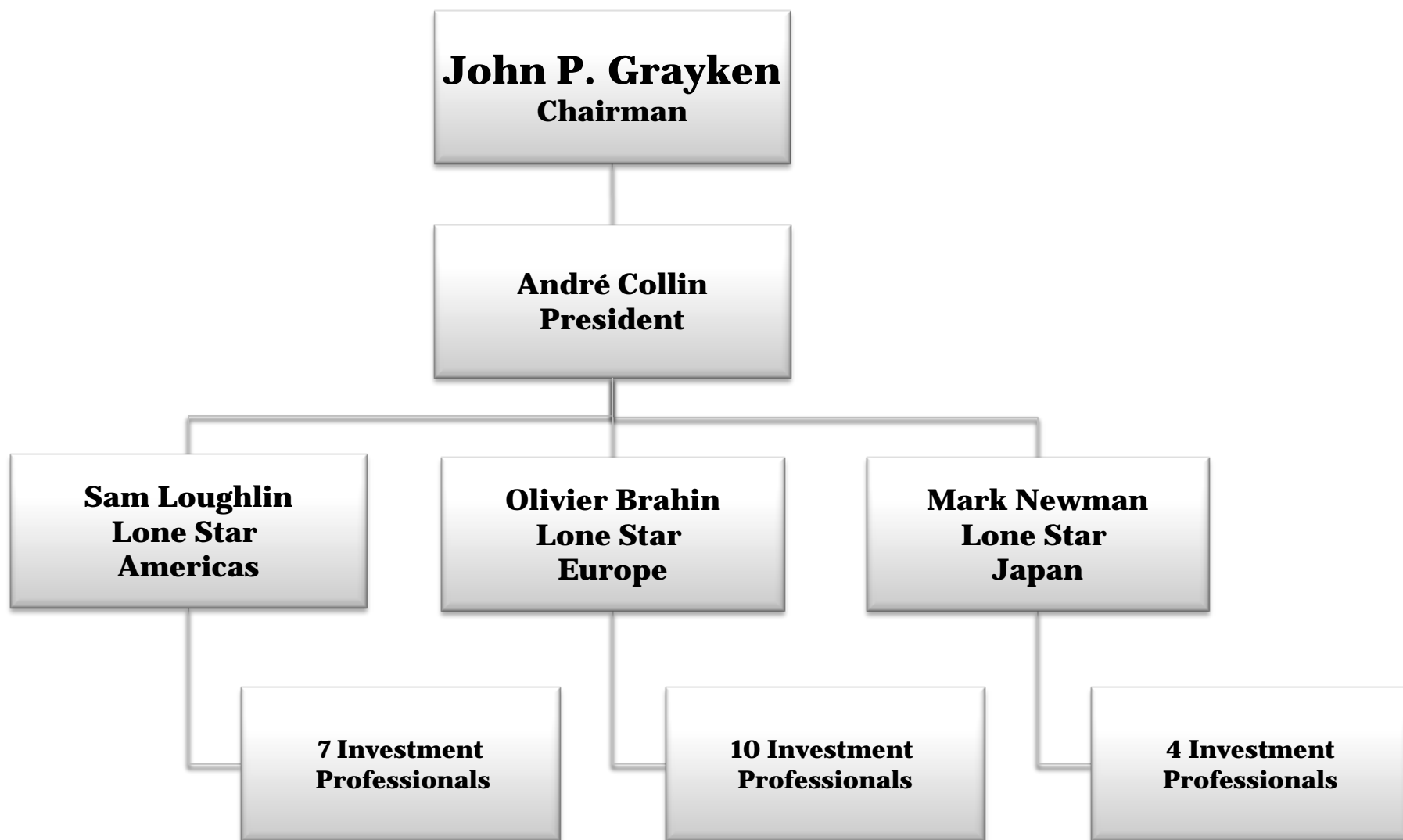
Non-Commercial Real Estate	Year of Formation	Capital Commitments
Lone Star Fund VI	2007	\$7.5 billion
Lone Star Fund VII	2009	\$4.6 billion
Lone Star Fund VIII	2013	\$5.1 billion
Lone Star Fund IX	2014	\$7.2 billion

Combined Strategy	Year of Formation	Capital Commitments
Brazos <sup>(1)</sup>	1995	\$247 million
Lone Star Opportunity Fund <sup>(1)</sup>	1996	\$396 million
Lone Star Fund II <sup>(1)</sup>	1998	\$1.2 billion
Lone Star Fund III <sup>(1)</sup>	2000	\$2.3 billion
Lone Star Fund IV	2001	\$4.2 billion
Lone Star Fund V	2004	\$5.1 billion

U.S. Residential Real Estate	Year of Formation	Capital Commitments
Lone Star Residential Mortgage Fund I	2014	\$1.3 billion

(1) Each of these funds has liquidated all of its investments.

# Lone Star Real Estate Fund IV Origination Structure



# Worldwide Origination, Asset Management, and Operating Capacity<sup>(1)</sup>

	Lone Star	Hudson <sup>(2)</sup>	Global Investment Services Companies <sup>(3)</sup>	Total
Americas	34	444	-	478
Europe	38	338	32	408
Japan	10	73	-	83
Bermuda	3	-	-	3
<b>TOTAL</b>	<b>85</b>	<b>855</b>	<b>32</b>	<b>972</b>

(1) Includes the number of employees in the companies/regions noted above as of December 20, 2014.

(2) Includes approximately 209 individuals in North America, 112 in Europe and 29 in Japan in global support functions.

(3) Approximately 32 individuals are employed by global investment services companies located in Belgium, Luxembourg and Ireland.

# Lone Star Real Estate Fund IV - Description

## Partnerships

- Lone Star Real Estate Fund IV (U.S.), L.P., a Delaware L.P. (primarily U.S. investors)
- Lone Star Real Estate Fund IV (Bermuda), L.P., a Bermuda exempted L.P. (primarily non-U.S. investors)
- Side-by-side co-investment agreement between the U.S. and Bermuda funds (together “**LSREF IV**”)

## Target Fund Size

- \$5.0 billion (U.S. and Bermuda funds combined) hard cap
- Hard cap will increase to \$5.5 billion if the Fund holds a single closing
- If oversubscribed in any close, the General Partner will prorate commitments for all investors participating in the final close

## Investment Strategy

- Distressed and opportunistic commercial real estate debt and equity products

## Expected Investment Capital Allocations<sup>(1)</sup>

- Europe 70-80%, Americas 10-20%, Japan 10-20%<sup>(1)</sup>
- Adviser and subsidiary offices in Dallas, New York, Washington D.C., Montreal, London, Frankfurt, Madrid, Amsterdam, Tokyo and Bermuda

## Target Investment Returns<sup>(2)</sup>

- 25% gross investment-level IRR<sup>(2)</sup>

## Commitment Period

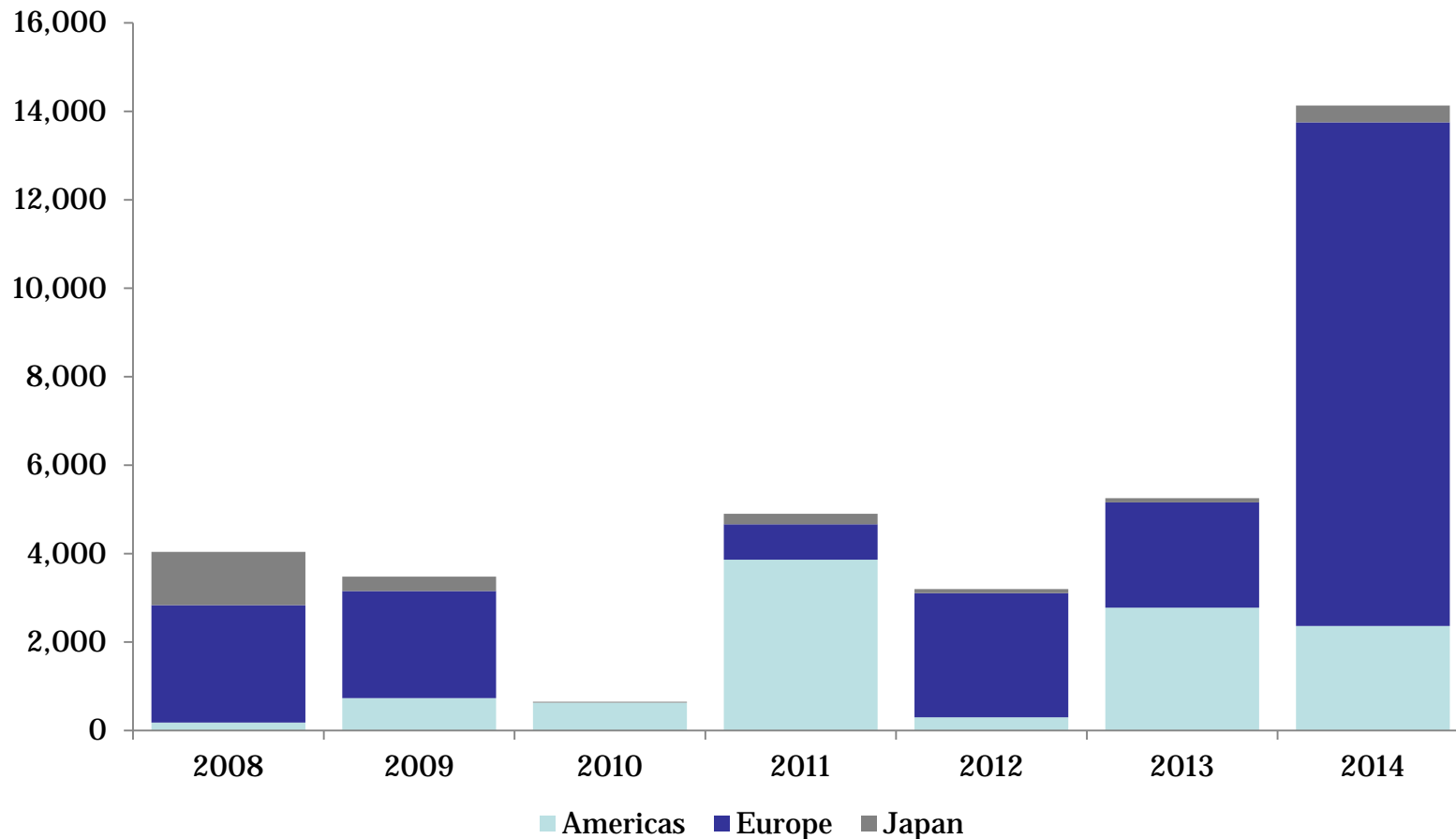
- 3 years from the final closing of investors

<sup>(1)</sup> The Expected Investment Capital Allocations set forth herein are only estimates. Actual investment capital allocations of LSREF IV may vary substantially subject to the limitations outlined in the LSREF IV Limited Partnership Agreements.

<sup>(2)</sup> Target returns are not representative of returns that may be realized by LSREF IV. All performance metrics described herein as “Gross” exclude the deduction of carried interest, the Adviser’s management fee, and all other fund-level expenses. An investor’s actual returns will be reduced by these fees and expenses, which are described in each Fund’s Confidential Private Placement Memorandum. Gross performance metrics include deduction of all investment-level expenses including, but not limited to, asset management fees. No assurance is given that the target returns will be achieved and actual results may vary significantly.

# Lone Star CRE Transaction Volume by Region<sup>(1)</sup>

US\$ millions<sup>(2)</sup>



(1) Includes commercial real estate investments acquired from 2008 until September 30, 2014.

(2) Total purchase price, including acquisition financing and co-investment.



# Europe Investment Environment

## Macro

- Weak and uneven recovery
- Low GDP growth and risk of deflationary environment
- Persistently high unemployment
- Austerity fatigue and continuing need for structural reform
- Political tensions between member states
- Banking system stabilizing but significant balance sheet issues remain
- Loose monetary policy / low rates

## Banking System

- Generational structural changes underway
- European Central Bank (“ECB”) Comprehensive Assessment including the Asset Quality Review published in October 2014
  - 25 of 130 banks failed tests – 12 have since raised capital to plug equity gap
  - Results indicative of continuing need for deleveraging / derisking across region’s banks
  - Unsustainable funding structures (loan / deposit ratio c.113%<sup>(1)</sup>) – continuing ECB support needed
- Regulatory constraints – Basel III, Capital Requirements Directive IV – and ECB now EU Single Supervisory Mechanism
- Bad banks requiring resolution
- Credit more widely available but still constrained

## Supply / Opportunity

- Estimated \$3 trillion of unwanted non-core assets in European banks<sup>(2)</sup>
- \$1.1 trillion gross NPLs in Western Europe<sup>(3)</sup> – 3% of bank assets
  - \$295 billion of CRE-related NPLs remain to be resolved<sup>(4)</sup>
- Loan sales accelerating
  - \$125 billion in 2014, 50% more than in 2013<sup>(2)</sup>
- UK, Spain, France: capital structure rationalization, value add, portfolio NPL’s, regional arbitrage
- Germany: portfolio NPL disposals
- Ireland: NAMA
- Italy: portfolio NPL disposals

(1) European Banking Association Risk Dashboard Q1 2014.

(2) PWC, European Portfolio Advisory Group Market Update, November 2014.

(3) ECB November 2014.

(4) ECB October 2014.

# Europe Investment Environment (*continued*)

## **Demand / Competition**

- Yield hungry investors becoming more aggressive
- Institutions (pension funds, insurance groups, sovereign wealth funds) typically do not invest directly in distressed CRE
  - Generally equity CRE investors, focused only on certain product types and/or large/core assets
- Most distressed investors are not as advanced in building origination and asset management capability in Europe
  - Lone Star is well established in the region having operated there for many years

## **Execution Capacity**

- Experienced distressed and commercial real estate investor in Europe since 1997
- Invested \$7.9 billion of equity capital in 103 European commercial real estate transactions of the same types that will be the primary target for LSREF IV
  - Increasing transaction volume in Europe with \$3.5 billion invested by the Prior Funds in commercial real estate in the last 12 months compared to \$1.0 billion in the prior 12 month period, as of September 30, 2014
- 11 investment professionals engaged in commercial real estate origination in Europe
- Approximately 190 employed by Hudson subsidiaries in London, Frankfurt, Munich, Luxembourg, Madrid, Paris, Amsterdam and Dublin who are engaged in due diligence and analysis, asset management and related services
  - Hudson and/or Lone Star maintains a presence in each of the key target markets

# Americas Investment Environment

## Macro

- GDP growth accelerating
- Unemployment falling but job creation of lesser quality and lagging wage growth
- Loose monetary policy / low rate environment expected to rise
- Currency appreciation

## Banking System

- Deleveraging / derisking at an advanced stage
- Asset rationalization still underway
- Regulatory constraints / Dodd-Frank / Basel III
- High underwriting standards beginning to loosen

## Supply / Opportunity

- Overall values for U.S. CRE properties have recovered to their 2007 peak values – distress at low levels
- Prime markets / properties not attractive from price perspective
- However, opportunities remain in non-primary markets where values remain on average 9.6% below 2007 peak
- Recovery in CRE valuations has diverged across asset types and opportunities remain
  - Suburban Office – 17.8% below 2007 peak
  - Retail – 15.5% below 2007 peak
- Potential to acquire properties below seller's cost basis and replacement cost from legacy real estate funds, large institutions or REITs divesting of non-core or non strategic assets and REO assets from legacy CMBS trusts
  - Publicly-traded U.S. REITs divested \$13.9 billion in non-core assets in 2014<sup>(1)</sup> – expected to continue
  - Increased regulatory scrutiny of non-traded REITs and slower asset appreciation expected to result in asset sales
  - CMBS loans in special servicing total \$39.3 billion<sup>(2)</sup>

(1) Data reflects transactions larger than \$100 million per Real Capital Analytics and Company Press Releases.

(2) Morningstar Delinquency Report, November 2014.

# Americas Investment Environment *(continued)*

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## **Demand / Competition**

- Traditional competitors, including investment banks, have greatly reduced investing due to high capital costs and regulatory issues
- Many private equity funds do not focus on distressed debt or tier 2 assets / locations
- Many hedge funds are not in a position to underwrite or hold substantial positions in illiquid real estate assets
- Institutions (pension funds, insurance groups, sovereign wealth funds) typically do not invest directly in distressed CRE
  - Generally equity CRE investors, focused only on certain product types and/or large/core assets
- Very few competitors have the servicing and asset management expertise available to Lone Star (e.g. Hudson) and the operating capacity to properly manage / execute detailed CRE business plans
  - Most rely on third party servicers and asset managers

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## **Execution Capacity**

- Experienced distressed and commercial real estate investor in the U.S. since 1995
  - Invested \$4.5 billion of equity capital in 146 U.S. commercial real estate transactions of the same types that will be the primary target for LSREF IV
  - Eight investment professionals engaged in commercial real estate origination in the U.S.
  - Approximately 190 people employed by Hudson subsidiaries in various locations including New York, Dallas and San Juan (Puerto Rico) who are engaged in due diligence and analysis, asset management and related services
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# Japan Investment Environment

## Macro

- Abe government trying to stimulate the economy
  - Recent loosening of fiscal policy
  - Expanding monetary policy / low rates
- Highest government debt / GDP of any industrialized country
- Average age of population rapidly rising
- Rapidly depreciating currency

## Banking System

- Need for deleveraging / derisking remains
- Asset rationalization continuing
- Government continues to pressure banks to be lenient with defaulting borrowers
- Restructurings expected to be market and borrower led

## Supply / Opportunity

- Core CRE assets priced efficiently
- Deleveraging of \$214 billion loans to the real estate industry originated on lenient terms during peak is ongoing<sup>(1)</sup>
  - Final resolution likely by way of collateral sales, loan sales, rescue financing or borrower recapitalization
- Japanese corporations under continued shareholder pressure to divest non core assets
  - Approximately \$4 trillion of real estate assets and companies held by these corporations<sup>(2)</sup>
- Arbitrage opportunities exist as a result of increasing disparity between tier 1 and tier 2/3 asset prices
- Non Japanese financial institutions exiting market via portfolio bulk sales

(1) Bank of Japan, "Loans and Discounts Outstanding and New Loans for Equipment Funds by Sector," Archive of Quarterly Release: Q1 2006 to Q4 2008.

(2) Cabinet Office, Government of Japan, "Current Status and Issues concerning Real Estate and Infrastructure Investment Market," December 3, 2012.

# Japan Investment Environment (*continued*)

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## **Demand / Competition**

- Traditional competitors (investment banks) have greatly reduced investing due to high capital costs, regulatory issues and changed business focus away from principal activity
- Funds that were investing in distressed/opportunistic assets in the 2000s have mostly exited
- Many private equity funds in Japan do not have expertise or experience in distressed / opportunistic assets
- Large barriers to entry as it takes several years to establish a professional and competitive investment platform

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## **Execution Capacity**

- Experienced distressed and commercial real estate investor in Japan since 1997
  - Invested \$7.2 billion of equity capital in approximately 632 Japanese commercial real estate transactions of the same type that will be the primary target for LSREF IV
  - Five investment professionals engaged in commercial real estate origination in Japan
  - Approximately 40 employed by Hudson subsidiaries in Tokyo who are engaged in due diligence and analysis, asset management and related services
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# Lone Star Real Estate Fund IV - Key Terms

## Affiliate Commitments:

- GP: 1% of Total Commitments
- Hudson Co-Investment Vehicle: Up to 1.5% of Total Commitments
- Additional Commitment by John Grayken and/or other partners of the GP (or their affiliated entities): a minimum of \$250 million<sup>(1)</sup>

## Limited Partner Terms:

(< \$100 million Capital Commitment)<sup>(2)</sup>

- 1.1% Management Fee During Commitment Period<sup>(3)</sup>
- 0.6% Management Fee Post Commitment Period<sup>(4)</sup>
- 8.0% Preferred Return

## Subsequent Distributions:

- 50%/50% LP/GP split after preferred return up to 20% cumulative return to the GP  
80%/20% LP/GP split until a 25% overall return  
75%/25% LP/GP split thereafter

(1) Through LSREF IV and Hudson Co-Investment Vehicle.

(2) Limited Partners at other commitment levels receive different terms with respect to Management Fees During Commitment Period, the Preferred Return, and Advisory Committee representation, as described in the Confidential Private Placement Memorandum.

(3) Fee based on committed, unreturned capital; assumes investor will receive 10 bps reduction in Management Fee During Commitment Period for participating in the first close.

(4) Fee based on outstanding invested capital.

# Hudson Advisors LLC



- Formed in 1995, Hudson is a globally integrated asset management company that performs due diligence and analysis, asset management, special servicing and support services for the Prior Funds and the assets acquired by the Prior Funds. Hudson will continue to provide these services for LSREF IV and the assets it acquires. Hudson and its subsidiaries collectively employ approximately 850 professionals worldwide.
- Hudson, headquartered in Dallas, Texas, is an investment adviser registered with the U.S. Securities and Exchange Commission and has subsidiary offices in New York, Montreal, San Juan (Puerto Rico), London, Frankfurt, Munich, Luxembourg, Dublin, Madrid, Amsterdam, Paris and Tokyo. Hudson and its global subsidiaries are dedicated to the support of investment activities of the Prior Funds and LSREF IV.
- Hudson has in-depth expertise in loan servicing and asset management in all markets in which the Prior Funds have material assets, providing a full range of services that include due diligence and valuation, financial services and reporting, income and property tax compliance, currency and interest rate hedging, risk management, information technology development and systems support. Certain of the Hudson subsidiaries are rated primary and/or special servicer by Fitch Ratings and Standard & Poor's Ratings Services.
- Hudson's fee structure for investments in each respective fund is approved in advance by the respective limited partners of each Prior Fund and LSREF IV.
- In the course of making investments, certain of the Prior Funds have acquired or created certain specialty management companies to service various assets requiring specific management expertise. While these specialty companies provide day to day asset management for these assets, Hudson maintains strategic oversight including monitoring the business plans for the investments and providing these organizations with a capital-focused discipline.

(1) The regional offices include the locations that are primarily responsible for due diligence and analysis, asset management and related services.

(2) The global support offices include the locations that are primarily responsible for global support functions (excluding due diligence and analysis, asset management and related services).

## Hudson Advisors LLC

### Hudson Regional Offices<sup>(1)</sup>

Japan	Americas	Europe
Tokyo	Dallas New York Montreal San Juan	London Frankfurt Munich Luxembourg Madrid Paris Amsterdam Dublin

### Hudson Global Support<sup>(2)</sup>

Dallas / Dublin

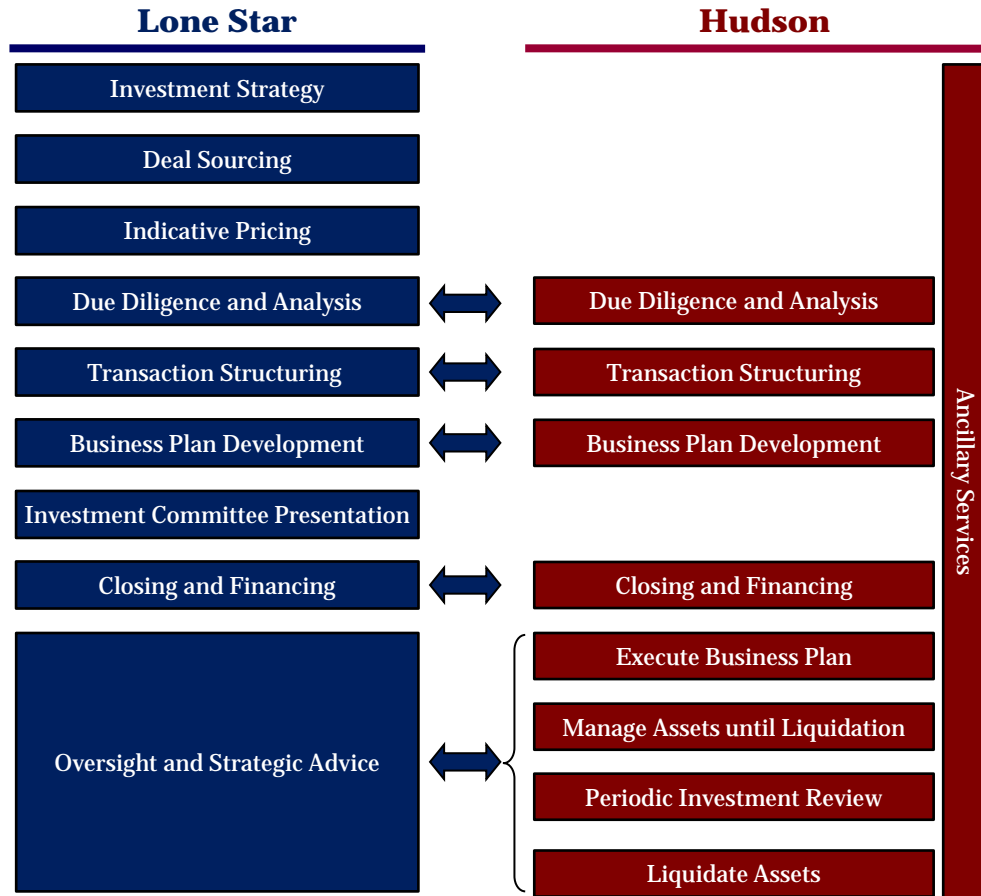
### Specialty Management Firms Owned by Prior Funds

 <b>Manages collection, modification, and reporting activities for residential whole loan portfolios.</b> <b>LSF V &amp; VI</b>	 <b>Managed operations for all golf course properties owned by Prior Funds in Japan</b> <b>LSF III &amp; LSF IV</b>	 <b>Manages operations for all hotel and other hospitality assets owned by Prior Funds in Japan</b> <b>LSF IV</b>
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- Pacific Golf Management K.K. (PGM) was sold December 5, 2011.
- In December 2012, the combination of Vericrest Financial, Inc. (an investment of LSF VI) and Caliber Funding LLC (an investment of LSF V) was approved by the Advisory Committees of LSF V and LSF VI. This transaction closed in summer 2013. The combined company is now known as Caliber Home Loans ("CHL").



## The Investment Process Division of Responsibility:



## Benefits of the Dedicated Asset Management Model

**Exclusive Relationship:** Through its relationship with Hudson, Lone Star receives dedicated focus and attention with respect to the management of the assets of the Prior Funds and LSREF IV.

**Privacy of Information:** Critical proprietary buy-side and sell-side information is (subject to certain legal restrictions) maintained primarily within the Lone Star and Hudson organization, greatly reducing the risk of a costly confidentiality breach to a competitor.

**Scale / Cost Control:** Hudson's large scale and broad-based expertise allow for cost effective asset management services.

**Alignment of Interests:** Through the HudCo Co-Investment Program, Lone Star and Hudson provide incentives to key employees to assist with the alignment of interests among Lone Star, Hudson, the Prior Funds and LSREF IV. This is difficult to achieve on a third-party basis where the manager seeks long-dated fee streams.

# Actual and Projected Performance of the Prior Lone Star Funds

(as of September 30, 2014)

	LSF IX	LSREF III	LSF VIII	LSF VII	LSREF II	LSF VI	LSREF I
Initial Close	April 2014	October 2013	March 2013	December 2009	December 2009	December 2007	December 2007
Fund Size	\$7.245 billion	\$6.975 billion	\$5.126 billion	\$4.606 billion	\$5.481 billion	\$7.465 billion	\$2.383 billion
Vintage Year	2014	2013	2013	2010	2010	2008	2008
Investment Period	40 months (projected)	36 months (projected)	13 months	39 months	46 months	24 months	24 months
<b>Portfolio Summary (as of Sept 30, 2014):</b>							
Number of Investments	7	12	21	32	31	28	11
Aggregate Purchase Price	\$10.494 billion	\$13.807 billion	\$16.541 billion	\$11.605 billion	\$14.053 billion	\$20.009 billion	\$6.156 billion
Number of Assets <sup>(3)</sup>	43,183	767	47,410	19,635	3,587	79,209	1,324
<b>Portfolio Investment Diversification (as of Sept 30, 2014):<sup>(4)</sup></b>							
Non-performing and Other Loans	32%	59%	33%	25%	70%	25%	10%
Mortgage Related Securities	49%	0%	35%	64%	2%	61%	3%
Financial Operating Companies	0%	0%	0%	0%	0%	14%	0%
Other Operating Companies	19%	7%	26%	11%	9%	0%	0%
Direct Real Estate	0%	34%	0%	0%	19%	0%	87%
Other	0%	0%	6%	0%	0%	0%	0%
<b>Portfolio Global Diversification (as of Sept 30, 2014):<sup>(5)</sup></b>							
Japan	0%	1%	6%	6%	7%	6%	37%
Europe	19%	88%	10%	8%	41%	17%	34%
North America	81%	11%	84%	86%	52%	77%	29%
South Korea	0%	0%	0%	0%	0%	0%	0%
Other Asia	0%	0%	0%	0%	0%	0%	0%
<b>Fund Summary (as of Jan 12, 2015):</b>							
Capital Called	\$0 million	\$3,346 million	\$3,513 million	\$4,323 million	\$4,759 million	\$5,974 million	\$1,975 million
Projected Capital Calls	\$7,245 million	\$3,629 million	\$1,613 million	\$0 million	\$64 million	\$0 million	\$0 million
Total Cash Distributed <sup>(6)</sup>	\$0 million	\$357 million	\$1,350 million	\$7,024 million	\$5,026 million	\$8,077 million	\$1,773 million
Projected Distributions <sup>(7)</sup>	\$10,873 million	\$10,741 million	\$8,208 million	\$2,093 million	\$2,983 million	\$4,940 million	\$768 million
Performance Realization Ratio	0%	3%	14%	77%	63%	62%	70%
<b>Fund Performance (as of Sept 30, 2014):</b>							
Projected Gross IRR	25.08%	23.74%	34.39%	73.61%	35.35%	19.91%	8.94%
Projected Gross CRM	1.43	1.69	1.95	2.20	1.78	2.10	1.38
Realized Gross IRR	-	-	-	-	-	-	-
Realized Gross CRM	-	-	-	-	-	-	-
Projected Net IRR <sup>(8)</sup>	19.29%	19.38%	25.73%	51.89%	23.56%	15.02%	6.26%
Projected Net CRM <sup>(9)</sup>	1.41	1.47	1.68	1.89	1.54	1.94	1.29
Realized Net IRR	-	-	-	-	-	-	-
Realized Net CRM	-	-	-	-	-	-	-
Preqin Real Estate Fund Benchmark Median Net IRR <sup>(10)</sup>	-	-	-	14.8%	14.8%	10.6%	10.6%

Note: Please see pages 21-23 for important disclosures regarding this performance presentation.

# Actual and Projected Performance of the Prior Lone Star Funds

(as of September 30, 2014)

	LSF V	LSF IV	LSF III <sup>(1)</sup>	LSF II <sup>(1)</sup>	LSF I <sup>(1)</sup>	Brazos <sup>(1)</sup>	Lone Star Aggregate <sup>(11)</sup>	Lone Star CRE Aggregate <sup>(12)</sup>
Initial Close	September 2004	December 2001	July 2000	September 1998 <sup>(2)</sup>	November 1996	March 1995	-	-
Fund Size	\$5.051 billion	\$4.208 billion	\$2.262 billion	\$1.228 billion	\$396 million	\$247 million	\$52.673 billion	-
Vintage Year	2005	2002	2000	1999	1997	1995	-	-
Investment Period	40 months	34 months	18 months	21 months	22 months	15 months	-	-
<b>Portfolio Summary (as of Sept 30, 2014):</b>								
Number of Investments	56	65	54	35	46	19	417	270
Aggregate Purchase Price	\$16.644 billion	\$13.124 billion	\$5.121 billion	\$2.642 billion	\$1.330 billion	\$1.271 billion	\$131.415 billion <sup>(13)</sup>	\$61.583 billion
Number of Assets <sup>(3)</sup>	4,613	525,577	116,356	12,752	725	3,878	859,016	44,734
<b>Portfolio Investment Diversification (as of Sept 30, 2014):<sup>(4)</sup></b>								
Non-performing and Other Loans	31%	21%	39%	74%	32%	78%	37%	48%
Mortgage Related Securities	2%	0%	0%	0%	0%	0%	22%	2%
Financial Operating Companies	21%	34%	22%	0%	0%	8%	11%	0%
Other Operating Companies	13%	16%	13%	0%	0%	0%	10%	9%
Direct Real Estate	32%	24%	26%	26%	50%	0%	19%	41%
Other	1%	5%	0%	0%	18%	14%	1%	0%
<b>Portfolio Global Diversification (as of Sept 30, 2014):<sup>(5)</sup></b>								
Japan	41%	50%	55%	48%	12%	0%	22%	35%
Europe	33%	8%	5%	6%	8%	0%	25%	38%
North America	24%	6%	7%	21%	80%	100%	46%	21%
South Korea	1%	30%	28%	25%	0%	0%	6%	4%
Other Asia	1%	6%	5%	0%	0%	0%	1%	2%
<b>Fund Summary (as of Jan 12, 2015):</b>								
Capital Called	\$5,051 million	\$4,007 million	\$2,242 million	\$1,228 million	\$396 million	\$242 million	\$37,056 million	-
Projected Capital Calls	-	-	-	-	-	-	\$12,551 million	-
Total Cash Distributed <sup>(6)</sup>	\$3,244 million	\$10,523 million	\$5,337 million	\$1,707 million	\$507 million	\$397 million	\$45,322 million	-
Projected Distributions <sup>(7)</sup>	\$2,621 million	\$36 million	\$6 million	-	-	-	\$43,269 million	-
Performance Realization Ratio	55%	99%	99%	100%	100%	100%	51%	-
<b>Fund Performance (as of Sept 30, 2014):</b>								
Projected Gross IRR	4.15%	44.21%	42.98%	-	-	-	29.82%	29.86%
Projected Gross CRM	1.18	2.30	2.24	-	-	-	1.83	1.55
Realized Gross IRR	-	-	-	23.49%	12.38%	38.35%	-	-
Realized Gross CRM	-	-	-	1.41	1.27	1.67	-	-
Projected Net IRR <sup>(8)</sup>	2.36%	30.66%	30.61%	-	-	-	19.53%	-
Projected Net CRM <sup>(9)</sup>	1.16	2.32	2.06	-	-	-	1.63	-
Realized Net IRR	-	-	-	15.95%	7.51%	28.09%	-	-
Realized Net CRM	-	-	-	1.34	1.25	1.47	-	-
Prequin Real Estate Fund Benchmark Median Net IRR <sup>(10)</sup>	0.2%	18.6%	19.0%	12.4%	13.1%	21.6%	-	-

Note: Please see pages 21-23 for important disclosures regarding this performance presentation.

**General Note on Performance Presentations:**

Past performance is not a guarantee of future results and no representation or warranty is made as to the returns that may be experienced by investors in LSREF IV.

The information set forth above, together with the definitions and footnotes that begin below, provide a summary of the track record of opportunistic investment funds sponsored by Lone Star. The information set forth above, together with the notes regarding the methodology employed in calculating values and projected cash flows of the unrealized investments, as well as the more detailed information relating thereto that is available upon request, should be carefully reviewed.

The return data for the Prior Funds is provided for informational purposes only and is as of September 30, 2014 unless otherwise noted. This material is not intended to forecast or predict future events, but rather to demonstrate the investment process of Lone Star. It reflects returns as of the indicated dates and may be outdated. The return data for the Prior Funds has not been audited or verified by any outside party. In addition to the Prior Funds set forth above, Lone Star Real Estate Mortgage Fund I held its first and final closing on December 17, 2014; as such, information is not provided concerning Lone Star Real Estate Mortgage Fund I but is available from the Adviser.

Lone Star believes the hypothetical projected returns set forth herein are reasonable based on factors that include the investment team's general experience and assessment of prevailing market conditions and investment opportunities. Due to various risks and uncertainties, there is no assurance that these projected and targeted returns will be achieved, or that the projected distributions will actually be available for distribution; actual events or results may differ materially from those reflected herein. Projected returns have many inherent limitations and may not reflect the impact that material economic and market factors may have on the decision-making process if client funds are actually managed in the manner projected. Certain assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Changes in the assumptions may have a material impact on the projected returns presented. Potential impediments to meeting the projected rates of return include, without limitation: economic and market conditions, political events and investor sentiments, liquidity of secondary markets, level and volatility of interest rates, currency exchange rates, availability of financing arrangements, and competitive conditions. Unless otherwise indicated, data does not account for the effects of inflation, fluctuations in transaction costs, and potential expenses that would reduce gross returns. The projections or other forward-looking statements regarding future events, targets, or expectations are only current as of the date indicated. The information in this presentation, including projections concerning financial market performance, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

**Definitions of Performance Presentation Terminology.** Unless otherwise indicated, terms used in performance presentations have the following meanings:

**Capital Called** – Capital called and received from partners in the respective Prior Fund, including the general partner.

**Cash Distributed/Distributions** – Includes all distributions of cash to the limited partners and the general partner (including cash distributed to the general partner in the form of its profits interest) from the respective Prior Fund.

**Closed** – An investment that has been approved and consummated by the respective Prior Fund.

**Committed** – An investment that has been approved and contractually agreed by the respective Prior Fund but not closed.

**CRM** – Capital Return Multiple, calculated as the sum of actual Distributions and Projected Distributions over the sum of Capital Called and Projected Capital Calls.

**Fund Size** – The aggregate commitments to both the U.S. and, where applicable, Bermuda and/or Parallel entities from the limited partners and the general partner of the respective Prior Fund.

**Gross** – Performance figures reported as 'gross' are calculated at the investment level and are prior to deduction of the general partner's profits interest and expenses charged directly to the respective Prior Fund, including, but not limited to, management fees payable to the Adviser, un consummated transaction fees, professional fees, organizational fees, and interest. If the profits interest and fees and expenses charged directly to the fund were reflected, the performance shown would be lower.

**Investment Period** – The period during which each Prior Fund is or was able to make new investments. For Prior Funds still within their Investment Period, the maximum permitted Investment Period is listed.

**IRR** – Annualized internal rate of return.

**Net** – Performance figures reported as 'net' are calculated at the Prior Fund level and include deduction of the general partner's profits interest and all expenses charged to the respective Prior Fund.

**Performance Realization Ratio** – The Performance Realization Ratio reflects life to date equity distributions as a percentage of total actual and projected equity distributions. The Performance Realization Ratio also approximates the percentage of Projected Gross IRR and Projected Net IRR that is based on realized cash flows that have been distributed to investors. A higher Performance Realization Ratio indicates that a greater portion of the projected performance for a Prior Fund is based on realized, distributed cash flows, and a lesser portion of the projected performance for a Prior Fund is based on projected future cash flows. A lower Performance Realization Ratio indicates that a lesser portion of the projected performance for a Prior Fund is based on realized, distributed cash flows, and a greater portion of the projected performance for a Prior Fund is based on projected future cash flows. A Performance Realization Ratio of 100% indicates that the stated performance of the fund does not incorporate any projected future cash flows. For LSF IX, LSF VIII, LSF VII, LSREF III, and LSREF II, the Performance Realization Ratio also includes distributions to certain limited partners for management fee rebates.

**Projected** – Performance figures reported as 'projected' are calculated using actual and forecasted cash flows and represent performance expected to be achieved by the respective Prior Fund if all of the remaining assets were liquidated in accordance with the respective general partner's current exit plans. Projected performance figures are based on the general partner's projections of the timing and amount of remaining cash flows of the remaining investments, which may or may not be realized. Projected performance is subject to uncertainties and is based upon assumptions that may not prove to be valid and may be changed without notice. Projected performance has not been audited or otherwise verified by any outside party and may not be representative of the actual cash that may be available for distribution by the Prior Funds.

**Projected Capital Calls** – Capital expected to be called from partners in the respective Prior Fund, including the general partner, over the remaining life of the Prior Fund based on the investment activity contemplated by the general partner. Subject to the terms of the partnership agreement of the respective Prior Fund, the amount of capital actually called may differ from the amount projected.

**Purchase Price** – Includes (i) equity capital utilized by the Prior Funds to purchase each investment, (ii) the co-investment by the key employees, (iii) any third-party co-investment, and (iv) leverage employed.

**Vintage Year** – The period during which a Prior Fund either first called capital from its respective limited partners or made substantial investments.

**Footnotes**

- (1) LSF II, LSF I, and Brazos have been fully liquidated and all performance reported is actual performance. LSF III has liquidated all of its investments.
- (2) LSF II Bermuda's initial closing occurred in November 1998.
- (3) Assets reported under LSF IV include consumer debt assets totaling 511,484 assets. Assets reported under LSF III, LSF VI, LSF VII, LSF VIII, and LSF IX include primarily non-performing residential mortgage loans totaling 92,865, 69,665, 17,498, 46,054, and 42,969 assets, respectively.
- (4) Portfolio Investment Diversification is presented as a percentage of invested partnership equity plus any partnership equity committed for investments not yet Closed. Portfolio Investment Diversification may change for Prior Funds still in their investment periods.
- (5) Portfolio Global Diversification is presented as a percentage of invested partnership equity plus any partnership equity committed for investments not yet closed. Portfolio Global Diversification may change for Prior Funds still in their investment periods.
- (6) For LSF IX, LSF VIII, LSREF III, LSF VII, and LSREF II, Total Cash Distributed also includes distributions to certain limited partners for management fee rebates.
- (7) Projected Distributions for Prior Funds with outstanding Projected Capital Calls include both projected cash flows for investments closed to date as well as projected cash flows for capital expected to be invested in the future, using an assumed 25% gross IRR for these future investments.
- (8) The Projected Net IRR for Prior Funds with outstanding Projected Capital Calls includes both projected net IRRs for investments closed to date as well as a projected net IRR for capital expected to be invested in the future, using an assumed 25% gross IRR for these future investments. Further, in certain Prior Funds, investors paid differing levels of management fees and/or received differing levels of preferred returns with the result being that the actual net IRRs received by a particular investor in a particular fund may vary. The numbers shown are the overall net IRRs generated or expected to be generated by each respective Prior Fund as a whole.
- (9) The Projected Net CRM for Prior Funds with outstanding Projected Capital Calls includes both projected investment-level cash flows for investments closed to date as well as an assumed 25% gross investment-level IRR for capital expected to be invested in future investments that have not yet closed. Further, in certain Prior Funds, investors paid differing levels of management fees and/or received differing levels of preferred returns with the result being that the actual net CRMs received by a particular investor in a particular fund may vary. The numbers shown are the overall net CRMs generated or expected to be generated by each respective Prior Fund as a whole.
- (10) The benchmark returns presented represent the median life-to-date net IRR for private closed-end funds following a real estate strategy obtained by Preqin as of June 30, 2014, updated through December 30, 2014, for the vintage year listed (the "Benchmark"). Preqin defines "vintage year" as the year in which a fund first calls capital for investment purposes. The Benchmark is designed to reflect the performance of funds available to institutional investors that focus on private investments in real estate and real estate-related debt, without regard to specific strategies utilized or geographic location.

The performance data for each Benchmark vintage year is derived from the performance of active and inactive funds of that vintage for which performance data has been gathered in the Preqin database. For certain vintage years, the Benchmark includes performance data from certain of the Prior Funds. The vintage year of the Prior Funds as determined by Lone Star may or may not correspond with the vintage year assigned to them by Preqin in its Benchmark. For the reported vintage years, the total number of funds comprising the Benchmark is as follows: 1995 – 19 funds; 1997 – 26 funds; 1999 – 28 funds; 2000 – 26 funds; 2002 – 28 funds; 2005 – 49 funds; 2008 – 44 funds; 2010 – 38 funds. Benchmark data is currently not available for vintage years 2013 or 2014.

The Benchmark is not publicly disseminated by Preqin; information on the Benchmark and its component funds are only available to Preqin subscribers. Preqin relies on a variety of sources for the performance and fund classification data underlying the Benchmark, including public information requests to fund investors and voluntary reporting by fund managers. Proper classification of a component fund as a "real estate" fund is dependent on availability of data and proper analysis by Preqin. Although Preqin seeks to include performance in its Benchmark that reflects an IRR net of fees and expenses, including any carried interest or performance fees earned by the manager or general partner, it does not have full transparency into the calculation methodologies used by managers of component funds. Component funds included the Benchmark may vary from one period to the next for a variety of reasons, including the availability of data and the potential bias of managers toward reporting only active, successful funds. Data for different component funds may be available on different schedules, resulting in Benchmark data that includes performance data current as of up to one year prior to the current quarter.

Returns of the Benchmark are provided to permit an evaluation of the Prior Funds' performance in the context of the institutional real estate investment environment during the applicable periods. It is not possible to invest in the Benchmark. The comparability of net IRR of the Benchmark to that of the Prior Funds may be impacted by potential differences between the Benchmark component funds and the Prior Funds in a number of areas, including risk/return targets, investment guidelines, investment strategies, investment types, investment periods, fund size, leverage, geographic focus, reporting periods, and fee levels. The return calculation methodologies used for the Benchmark and the Prior Funds differ in that the Benchmark uses the present value of unrealized assets instead of projected future cash flows to calculate interim IRRs, which may also affect comparability. Because of these factors, the Benchmark may not be a reliable basis of comparison for Prior Fund performance.

- (11) The Lone Star Aggregate performance information presented reflects the performance of a hypothetical single fund making all of the investments of all of the Prior Funds combined and receiving all of the cash flows, both projected and actual, over the same time period. Unless otherwise noted, the methodologies used to calculate each performance metric presented for the Lone Star Aggregate are the same as those used to calculate each metric for a single Prior Fund. This model performance does not represent performance that any fund achieved or is projected to achieve. The performance experienced by an investor in all of the Prior Funds may be materially different from the aggregate performance presented depending on a variety of factors, including the timing and amounts of investment in each fund. Model returns have many inherent limitations and do not reflect the impact that material economic and market factors may have had on the decision-making process if funds were actually managed in the manner shown.

- (12) *The Lone Star CRE Aggregate performance information reflects the performance of a hypothetical single fund making all of the investments of all of the Prior Funds combined that were consistent with the investment objectives of LSREF IV and receiving all of the cash flows from these investments, both projected and actual, over the same time period. Only capital calls invested in Commercial Real Estate Investments are included in the calculation. "Commercial Real Estate Investments" are defined to include, but not limited to, investments consisting predominately of any of the following: (i) Commercial Real Estate, (ii) investments in or origination of loans secured by Commercial Real Estate, (iii) securitized products relating to Commercial Real Estate, (iv) other equity investments, the underlying value of which is Commercial Real Estate, and (v) derivative instruments related to any of the foregoing. Further, "Commercial Real Estate" means any type of real estate or real estate-related assets, excluding investments in, or that predominately relate to, single-family residential assets (including, without limitation, loans secured by such assets, residential mortgage backed securities ("RMBS"), and collateralized debt obligations ("CDOs") related to such loans or securities), but including, without limitation, (i) multi-family residential real estate and related assets, including specialized multi-family housing such as senior- or assisted-living and health care facilities and student housing, (ii) retail real estate and related assets, (iii) industrial real estate and related assets, (iv) hotels and other hospitality or leisure related assets, and (v) commercial office real estate and related assets. Unless otherwise noted, the methodologies used to calculate each performance metric presented for the Lone Star CRE Aggregate are the same as those used to calculate each metric for a single Prior Fund. This model performance does not represent performance that any fund achieved or is projected to achieve. Model returns have many inherent limitations and do not reflect the impact that material economic and market factors may have had on the decision-making process if funds were actually managed in the manner shown.*
- (13) *Aggregate Purchase Price for the Lone Star Aggregate is slightly less than the total for all Prior Funds because certain investments were owned by more than one Prior Fund.*

## CONTACT INFORMATION

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